

## MEMORANDUM

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**DATE:** Tuesday, August 20, 2013

**TO:** Richard Ellis, State Treasurer  
David Damschen, Deputy State Treasurer

**FROM:** Brian Baker  
Zions Bank Public Finance

**RE:** Itineris Early College High School

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The purpose of this report is to examine Itineris Early College High School's ("IHS" or the "School") application to issue charter school revenue bonds through the State Charter School Finance Authority (the "Authority"). Materials submitted subsequent to the original application, in response to further inquiry from the Authority, will also be incorporated into this memo. The School has provided all information requested, and all questions have been answered to my satisfaction.

The School's website provides the following description: "Itineris Early College High School is an independent Utah public charter high school that maintains a unique partnership with Salt Lake Community College. Itineris provides college level courses through SLCC's Concurrent Enrollment program, and is located on the SLCC Jordan Campus. The Itineris institution is a blended one. Existing as one of the first Early College High Schools in the state of Utah, students come to Itineris in their junior year and enter a rigorous high school and college program that focuses on mathematics and biotechnology. Over the course of two years, students finish their high school requirements and begin their college experience in an environment that provides both high school and college courses, a college campus environment and support in making the transition from high school to college both successful and positive. A majority of Itineris Early College High School graduates also earn their associate degree at the same time that they finish their high school graduation requirements." The 2013-2014 school year is the first where Itineris will serve students in the 10<sup>th</sup> grade.

Itineris plans to issue approximately \$8.3 million in charter school revenue bonds to fund the purchase of land and the construction of a new two-story facility in West Jordan. The school will be approximately 36,000 square feet and provide space for up to 425 students in the 10<sup>th</sup> through 12<sup>th</sup> grades. The goal is to have students in the new facility in August 2014.

I have reviewed the application from Itineris, as well as additional information requested that the school has provided. All questions have been answered to my satisfaction. My analysis results in the following findings:

1. (Exhibit D Schedule 1) The school's Mission Statement declares that, "The mission of Itineris Early College High School is to create a learning community with cultures that support high expectations, inquiry, and effort; blending this cognitive challenge with the caring connections that encourage self-discovery and maximize potential." The school has a very focused mission with a specific path to enable students to obtain both a high school diploma and an associate's degree at graduation. I know parents in the Provo and Orem area who have recognized the value of what Itineris offers and sent their children there with great success.
2. (Application Part II Question 6) The bonds are to be secured by an assignment and secured interest in the revenue pledge agreement and trust accounts, and a security interest and pledge of the deed of trust in the land, building, and personal property that are being purchased or constructed with proceeds. The bonds will also be secured by a debt service reserve fund.
3. (Exhibit C (g)) Itineris has entered into a service agreement with Charter Solutions Consultant Services. Charter Solutions is paid approximately \$3,000 per month to act as business manager, covering the areas of financial management, human resources management, and legal compliance. These costs seem reasonable based on similar contracts seen for other charter schools and other service providers.
4. (Exhibit D Schedule 1) The school has provided a letter addressed to Brandon Johnson that explains the way their waiting list works as well as the unique circumstances of Itineris regarding wait lists based on the academic program offered. The School operates on a semester basis, and because 11<sup>th</sup> and 12<sup>th</sup> grade students are taking college courses for at least half of their schedule, they don't have the ability to add students after the second week of school. There are 10 students on a waiting list for 11<sup>th</sup> grade and 6 for 12<sup>th</sup> grade. By adding 10<sup>th</sup> grade, Itineris will have the ability to add students from the waiting list throughout the year anytime an opening becomes available. There are currently 65 students on the 10<sup>th</sup> grade waiting list.
5. (Preliminary Financial Forecast) Based on the school's projections, the school should not have cash flow issues, and should be in a reasonably strong financial position, assuming the achievement of the student population growth anticipated to be enabled by the planned expansion and new facility. For projections, the WPU is held constant for the next four years. Growth from 246 to 415 students between the current year and 2016 is the biggest variable in the projections. Obviously, if student enrollment growth were not to occur, or to be slower than forecast, there would be some strain on the financials. Debt service is anticipated to be approximately \$90,000 per year higher than projected in the School's original application. However, the financial statements indicate that this should not present a problem, subject to student enrollment growth.
6. Debt is forecasted at the following terms: 6.76% TIC rate, 34 year final maturity, with only interest until 10/15/14. These terms seem reasonable for the current market.
7. The projected debt coverage ratio is approximately 1.44X for the next five years. As long as Itineris continues to meet enrollment goals, coverage should not be a problem given the conservative assumptions of the revenue forecast.
8. (Documentation of School Financial Status) The projected overall debt service burden rate for the school, given the higher expectations for annual debt service, is approximately 20% once full enrollment is reached. We would expect this ratio to fall in the future as the WPU increases. This level is high relative to rating agency standards for rated transactions, but not out of line with other non-rated charter school deals. (rating agencies and the market usually like to see a debt service burden ratio of 15% or less for a *rated* transaction)

9. (Bond issue information, 9 (a)) The cash position of the school appears to be strong at over 100 days cash on hand going forward (117 days in the current year).
10. There is construction risk, which is a negative factor. Construction will begin following the bond issuance, and at this point the construction contract is still incomplete. It is obviously imperative that the new facility be ready on schedule to coincide with the needed student enrollment increase.
11. The budget projections include enrollment growth from 246 this year to 415 by fiscal year 2016. This growth seems reasonable given the constraints on growth in the present facilities. The expansion to 10<sup>th</sup> grade will enable this growth. From personal knowledge of families who have sent their students to Itineris from Utah County, the academic program offered is a compelling differentiator.
12. The professional costs of this transaction are lower than for other non-rated charter school deals we have seen. In fact, the costs (\$12 underwriter spread, \$5 financial advisor fee) are well below what we have seen on most rated and even moral obligation-backed charter school deals issued through the Authority. .

As long as the school can hit the targets outlined for enrollment growth, the financial structure appears more than adequate to service the debt. If you have any questions, I would be happy to answer them.